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Economics Group

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Jobs: Slower Gains—Seasonal Factors or Move to GDP Track?

April job gains came in at a disappointing 160,000, while the unemployment rate was unchanged at 5.0 percent. Seasonal factors may have weighed on retail and construction. Wages continue to rise.

Job Gains Reflect Seasonal Factors and/or More Modest Trend?

Overall job growth in April was a disappointing 160,000. The early Easter may have reduced the April retail trade numbers, while construction numbers may have been lowered by warm weather in previous months pulling hiring forward.

A slower pace of job gains, if sustained, would lower the odds of a FOMC move in June. There has been a dislocation between the trends in GDP and employment growth over the past six months, but today's report raises the concern that GDP may be the better signal.

By sector, job growth in goods producing industries remains weak. Manufacturing payrolls rose 4,000, but are still below January levels, while mining firms continued to cut jobs. With the exception of retail, private service-sector gains have been fairly steady. Private services, such as education & health, professional & business services and leisure & hospitality continue to support growth and consumer spending.

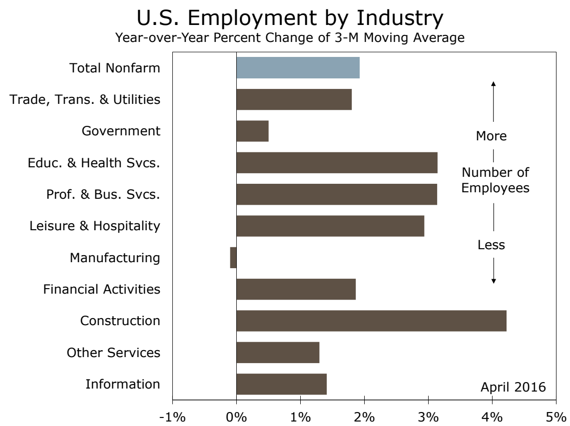
Rising Cost of Labor in Many Forms—the Mid-Cycle Story

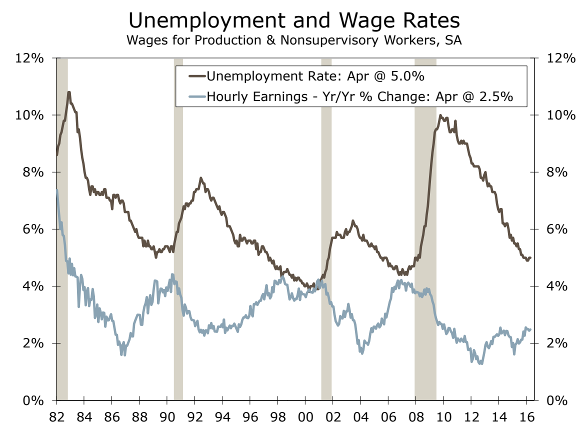
Another sign of tightening in the labor market is the acceleration in average hourly earnings while the unemployment rate remains around estimates of full employment (middle graph). Average hourly earnings rose 0.3 percent in April, putting the year-over-year gain at 2.5 percent. That said, the pace of wage gains has been modest compared to the past three economic expansions. Given the weak productivity figures, we should see upward pressure on inflation even with more modest gains in the labor market.

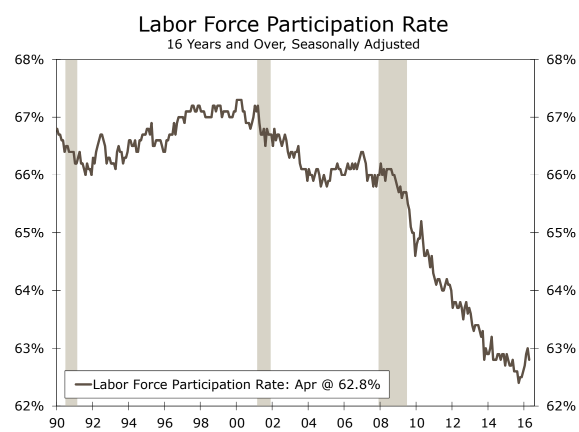
Unemployment Rate Unchanged—For the Wrong Reasons

The unemployment rate remained unchanged at 5.0 percent as the volatile household level of unemployment fell by more than 300,000. The broader U-6 measure declined, however, as fewer workers reported working part time for economic reasons. Average hours worked rose a tick to 34.5 as retail jobs declined and hiring in leisure & hospitality slowed—the two industries with the shortest workweek.

After steadily climbing since September, the labor force participation rate fell 0.2 percentage points to 62.8 percent (bottom chart). While the drop refreshes concerns over just how many workers can be pulled back into the workforce, even a stable participation rate would be consistent with cyclical improvement given that secular trends such as an ageing population and rising educational attainment are weighing on participation. Even with April's decline, the recent improvement in the labor force participation rate has given Fed officials some breathing room on the employment side of their mandate, confirming there remains additional slack in the labor market not being captured by the unemployment rate. The slower pace of hiring in April and uncertainty over remaining slack raises doubts that the Fed will choose to raise rates again as early as its June meeting.







Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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